

## LJM INVESTMENT SUMMARY

DEAL NAME: Margaux  
Originated: Enron Europe  
Expected Closing Date: June 30, 2000  
Expected Funding Date: July 6, 2000

Date Completed: June 28, 2000  
Investment Analyst: Chris Lochr  
Investment Type: Equity

### APPROVAL AMOUNT REQUESTED

Capital Commitment \$ 10.0 MM

### DEAL DESCRIPTION

Purchase 33% of the equity trust certificates in the Margaux structure for \$10 million. Margaux is a monetization of Enron's equity ownership in three European power plant investments: Sarlux, Trakya, and Nowa Sarzyna. A brief description of each of the power plants follows:

Sarlux is a 551 MW integrated combined cycle power plant in Sardinia, Italy. Sarlux will convert heavy oil residual provided by the Saras refinery into synthetic gas, which will be fed into gas turbines to produce electrical power. The power will be sold under a 20 year PPA to ENEL SpA, the Italian state-owned electricity generator and distributor. Sarlux is currently under construction and commercial operations are expected to commence in October 2000.

Trakya is a 478 MW CCGT plant located by the Sea of Marmara, Turkey. Commercial operation commenced in June 1999. There are long term fuel supply and offtake contracts with state-owned entities. All payment and performance obligations are backstopped by Republic of Turkey guaranty.

Nowa Sarzyna is located in southeastern Poland and is a gas-fired heat and power station with a generating capacity of 116 MW and thermal generating capacity of 70 MW. The facility is located within the chemical complex of Organika (state owned chemical producer). There are long term fuel supply and offtake contracts with state-owned entities. Nowa Sarzyna is currently under construction and completion is expected in early June 2000.

Margaux will issue \$95 million of equity trust notes, \$30 million of Class A equity certificates and \$15 million of Class B equity certificates. The trust notes have been rated BB by Duff & Phelps. LJM and Hancock will purchase 33% and 67%, respectively, of the Class A certificates. LJM has agreed to let Hancock have voting control over all issues except those affecting expected return or the required investment amount. Enron will purchase 100% of the Class B certificates.

The Margaux trust will enter into a swap with Enron Corp. on the cashflows from the underlying projects. ENA will take the floating cashflows from the underlying projects, and the Margaux trust will receive fixed payments, subject to certain adjustments, which will be used for debt and equity service. The risk of this deal is that the adjustments to the fixed swap payments made by Enron (due to factors described below) result in cashflows insufficient to provide a return of capital and a return on capital to LJM. The first fixed swap payment due December 15, 2000 is not subject to adjustment.

The swap with ENE involves the discrete transfer of certain risks to Margaux. The amount received by Margaux under the swap will be adjusted for the following:

Sarlux: Certain variances in forced outage rate, methane price, CIP-6

Trakya: Certain variances in forced outage rate, fuel usage, Turkey credit event

Nowa Sarzyna: Certain variances in forced outage rate, fuel usage

(See risks and mitigants section for further details on risks transferred to Margaux.) All other project risks will be borne by Enron Corp. The swap has a 12 year term, while the Margaux structure has a 10 year term. A cash account in the structure grows by the excess, if any, each period of the fixed swap payments (after adjustments, if any) over the debt and equity service. At termination of the structure, the swap's termination value (the present value of the remaining two years of payments) is paid to Margaux and used along with any amounts in the cash account for debt and equity redemption.

### TRANSACTION SUMMARY

On June 30, 2000, LJM will purchase 33% of the equity trust certificates in the Margaux structure for \$10 million.

### CASH FLOW SUMMARY

Cashflow available for distribution from the trust will be distributed according to the following waterfall:

1. Operating expenses of the trust
2. Trust note interest
3. A Certificate yield of 12% (subject to coverage ratios)
4. Debt service reserve (until fully funded to \$30 million)
5. A and B Certificate yield accretion (4% ordinary yield for A, 16% yield for B; subject to coverage ratio)
6. Trust note redemption
7. A and B certificate redemption (pari passu)

LJM030349

GOVERNMENT  
EXHIBIT  
7801

Crim No. H-04-0025

Confidential Treatment  
Requested

The A certificates to be purchased by LJM will be entitled to a cash certificate yield of 12% and a cash ordinary yield of 4% (total 16% yield) subject to the conditions in the waterfall (see "Subordination of equity" in risks and mitigants for details of covenants). At the end of the structure (2010), the A certificates will receive a return of capital pari passu with the B certificate redemption, but only after repayment of the Trust Note certificates.

#### RETURN SUMMARY

LJM's investment under the base case assumptions and if held to maturity would yield 16%. The returns are impacted by swap payment adjustments (see risks and mitigants section as well as sensitivity section for more detail).

#### EXIT STRATEGY

It is expected that this investment will be pooled with other current cashflow investments and securitized during the next twelve months.

#### RISKS AND MITIGANTS

<i>Structural risks of Margaux</i>	
Risk	Description/Mitigant
Subordination of equity	From an equity standpoint, the trust notes receive preference in distribution to the A and B certificates. The waterfall limits current cashflow distribution to the A certificate holders (certificate yield is subject to 1.75x LTM and 1.75x NTM coverage ratio for trust note interest; ordinary yield is subject to the debt service reserve being fully funded and a 1.75x life of the trust notes coverage ratio being met). In addition, return of principal at the end of the structure is made pari passu with the B certificate redemption. The extreme subordination of the A certificates is mitigated by analysis of the sensitivity cases, most of which result in a 16% return and return of capital.
Bullet repayment	Principal repayment, if any, on the equity certificates occurs at the end of the Margaux structure in December 2010.
Catastrophic events	Forced outage adjustments resulting from any of the plants being substantially or entirely damaged, destroyed or rendered unfit for normal use can be made for only three years. After that point, the swap payment adjusts to the original amount, incentivizing Enron to rebuild or repair the plant.
<i>Risks transferred under swap - Sarlux</i>	
Risk	Description/Mitigant
Completion risk	Sarlux is currently under construction with commercial operations expected to commence in October 2000. Margaux does not take completion risk on Sarlux.
Operating risk (Forced outage)	Sarlux will convert heavy oil residual provided by the Saras refinery into synthetic gas, which will be fed into gas turbines to produce electrical power. Even though the creation of the synthetic gas is proven proprietary Texaco technology, it is, by design, a more complicated plant than the other Margaux assets. The EPC contractor is a consortium comprised of Snamprogetti, Turbotechnica and General Electric. GE was chosen on the basis of its considerable syngas experience which is greater than any other manufacturer. The operating risk is further mitigated by setting the forced outage rate higher than the other Margaux assets. To further limit risks related to the synthetic gas, Margaux does not take fuel usage risk.
Indexation risk	The tariff Sarlux receives includes an avoided cost component based on the price of methane in Italy. The Italian gas market is not deregulated, so the price of methane is set by the government and is based on a formula involving the price of oil, Italian CPI, and other factors. A baseline forecast of the avoided cost component of Sarlux's revenues was made by an independent consulting firm using forecasts of the price of oil, Italian CPI, etc. Every 1% deviation from this forecast lowers the swap payment by \$351k/year. The independent third party forecasts have been analyzed and appear reasonable for price of oil, Italian CPI, etc. In the event that the gas market is deregulated, the baseline forecast will be reset based on the new market prices for gas.

CIP-6 risk	CIP-6 is the tariff paid to certain electricity generating plants that are using alternative fuel sources. The CIP-6 tariff contains an incentive portion, paid by the Italian government to subsidize these projects. The incentive portion of the CIP-6 tariff is \$0.03 of the \$0.08 tariff that Sarlux receives from ENEL. Any change in law that would affect the incentive portion of the CIP-6 tariff is borne by Margaux. The total repeal of the incentive portion of the tariff would reduce the swap payment by \$35.1 million per year. The risk of repeal of the incentive is mitigated by the results of a recent challenge in 1999 by a consumer advocate group. The challenge was taken to the Italian Council State, which passed judgment that the incentive portion of CIP-6 cannot be changed. In addition, as long as the incentive is not repealed before 2005, there is sufficient cash flow under the base case assumptions to provide the expected return and return of capital to the A certificate holders.
<i>Risks transferred under swap - Trakya</i>	
Risk	Description/Mitigant
Operating risk (Forced outage and Fuel Usage)	Operating risk for the Trakya plant is minimal due to the standard design of the plant and the operating history to date.
Credit risk	The Republic of Turkey is currently rated B+ by S&P, B1 by Moody's, and BB- by Duff & Phelps. All three rating agencies believe the outlook for Turkey is positive. The swap payment will be reduced \$20 million per year under the following Credit Event scenarios: (1) In the event that Turkey defaults on foreign currency denominated debt of a principal amount equal to or greater than \$40 million; or (2) In the event that Turkey is downgraded by both Moody's and S&P below Caa1 and CCC+, respectively, AND Trakya is not receiving at least 95% of amounts which were due and payable under the current PPA. Once the Credit Event has been remedied, the swap payment is adjusted upward by \$20 million per year to the original amount. The credit risk of Turkey is mitigated by the country's need for foreign investment to meet their IMF goals and to assure their pending membership in the EU. Also, assuming that Turkey needs the power from Trakya, connecting the country downgrade risk and the plant payment risk allows swap payments to continue unadjusted if the country is downgraded but the utility, TEU, is still buying the power. In addition, the swap payment is not adjusted if TEU renegotiates the PPA to reduce the tariff, since the 95% receipts requirement is tied to the PPA, as amended or modified.
<i>Risks transferred under swap - Nowa Sarzyna</i>	
Risk	Description/Mitigant
Completion risk	Nowa Sarzyna is currently under construction and is expected to commence commercial operations in early June 2000. Margaux does not take completion risk on this asset.
Operating risk (Forced outage and Fuel Usage)	During testing, the steam turbine rotor was damaged but nonetheless tested within expected parameters. Replacement of the steam turbine rotor is planned in April 2001. To the extent that a forced outage is caused by the damaged turbine rotor within the first two years of operation (before replacement), the swap payment will not be affected. After replacement, the turbine will be covered by the standard two year warranty from the manufacturer. Therefore, the forced outage risk is mitigated until 2003.
	Note: The maximum swap adjustment related to Nowa Sarzyna cannot exceed \$3.168 million per year, or 8.7% of the fixed swap payment. Therefore, the operating performance of Nowa Sarzyna will have a minimal impact on certificate returns.

LJM030351

---

## SENSITIVITY

At the end of the Margaux structure under the base case assumptions, the buildup of cash and the termination value of the swap provide return of capital. DLJ ran 18 sensitivity cases assuming different combinations of operating risks, indexation risks, credit risks, etc. (all the risks outlined above) at single plants and occurring jointly at multiple plants. Other than those cases involving the repeal of CIP-6 or Turkey credit events, the swap adjustments do not result in significant impairments to equity returns. These two risks impact equity returns the most and are described in more detail below:

### *Trakya Turkey Credit Risk*

The swap payment adjustment is \$20 million per year until the credit event is remedied. The sensitivity cases show that as long as the credit event is temporary (in the DLJ example, lasting from years 3-5) the certificate returns are not affected. However, if the credit event occurs early in the life of the structure and is not remedied, the equity is impaired (certificates receive return on, but not return of capital). This latter case (a "permanent" credit event) seems unlikely given Turkey's need for foreign investment, the country's desire to join the EU and the need for the power from the plant.

### *Sarlux CIP-6 Risk*

The swap payment adjustment is \$35.1 million per year if the incentive component of CIP-6 is repealed entirely. The sensitivity cases show that the incentive component would have to remain in place until at least 2005 if the expected certificate returns are to be achieved. Given the results of the recent challenge to the incentive, it seems likely that if the incentive were challenged again in the near future, and the consumer advocate group prevailed, the government might decide to phase out the subsidy over some period. If, for example, the subsidy was cut in half for two years starting in 2003, then repealed entirely in 2005, the expected return would be achieved and the capital would be returned in 2010.

LJM030352